

THE MUTUALITY CONCEPT OF COOPERATIVES

Use of the word "Mutuality" is in one sense synonymous with "cooperation." Both terms can be defined as common or joint effort or operation. In another sense, the term mutuality goes a bit deeper and gets right to the purpose for which cooperatives are formed -- the mutual benefit of the members.

WHAT IS A COOPERATIVE?

The dictionary definition of a cooperative can be summarized as an organization owned collectively by members who share in its benefits.

Other definitions developed include:

- "A cooperative is an organization that is owned by the people who use it."
- "A cooperative is a business organization that is voluntarily owned and controlled by its member patrons and operated for them and by them on a non-profit or cost basis."
- "A cooperative is a business formed by a group of people to obtain certain services for themselves more effectively or more economically than they can obtain them individually. These people own, finance, and operate the business for their mutual benefit."

Several years ago, the U. S. Department of Agriculture engaged in a very intensive effort to better define what constitutes a cooperative, insofar as interpretation by the various agencies of government.

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The definition developed by the Farmer Cooperative Service on the basis of this study is:

"A cooperative is a voluntary contractual organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a non-profit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operation risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative's services. A cooperative is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative."

HOW DO COOPERATIVES OPERATE?

In many respects, cooperatives are organized like other businesses and operate in the same way. They usually incorporate under the laws of the state in which they have their main office. They draw up bylaws, articles of incorporation, and other necessary legal papers. Members elect a board of directors. The board hires a manager and establishes general policies. The manager runs the day-to-day business.

The cooperative business differs from the three other types of businesses in our competitive economy, and it is important that these differences be clearly recognized by educators, cooperative employees, and the cooperative's members. Most cooperatives are incorporated so perhaps the best comparison for pointing out these major differences is to look at the non-cooperative corporation and the cooperative corporation.

A comparison of these two types of business on six key features reveals:

<u>FEATURE</u>	<u>NON-COOPERATIVE CORPORATION</u>	<u>COOPERATIVE CORPORATION</u>
1. Users	Public	Member-Patrons
2. Ownership	Stockholders	Member-Stockholder
3. Who Votes for Directors	Stockholders	Member-Stockholder
4. How Vote	By Shares	One Member-One Vote
5. Equity Capital	Unlimited	Limited - 8%
6. Who Gets Earnings	Stockholders (Stockheld)	Member-Patron

The differences noted in this simple comparison are not accidental.

These differences relate to the purposes for which the two types of businesses are formed and the basic fundamentals, principles and theory of cooperation (mutuality).

COOPERATIVE HISTORY/PRINCIPLES

For well over a century, writers have been recording the history of the cooperative way of doing business. Much emphasis has been placed on the evolution of principles of cooperation. These so-called principles have been developed by cooperatives that evolved locally and independently of one another in many countries, including England, Scotland, Germany, France, Scandinavia and the United States. Cooperative principles are the out-growth of probings, trials, and tribulations of many cooperative endeavors over many years.

Much of the credit for cooperative principles has been given to the Rochdale Society of Equitable Pioneers, a group of textile workers who began a cooperative store in London in 1844. The essential points of

their operation can be summarized as:

1. The store is open to all.
2. Charges ordinary market prices.
3. Receives ready money only and gives no credit.
4. Gives dividends in proportion to purchases.
5. Every member must have a share or shares and recieve good interest on them.
6. All are equal in voting power, whether they have few or many shares.
7. The store sells genuine articles which are what they profess to be.
8. The store has an honest manager and an active committee.
9. The Society insists on an efficient and intelligent audit and stock taking.

In varying numbers, some of the principle operating features of the Rochdale group have become known as the "Rochdale Principles."

In the United States, one of the major forces in organizing cooperatives was the Patrons of Husbandry, more generally referred to as the Grange. Although many of the Grange cooperatives were not successful, this organization made a valuable contribution to later cooperative efforts by adopting and disseminating its "Rules for Patrons' Cooperative Associations" which were published in 1876. The major points of these "Rules" were:

1. One Man, One Vote
2. Limitation of Interest on Invested Capital.
3. Payment of Dividend on Patronage.
4. Cash Trading.
5. Neither fear Nor Court Competition.

The similarity of these points to the "Rochdale Principles" is obvious. The Rochdalian principles are widely recognized as a benchmark which cooperative operations have basically followed in subsequent years.

The International Cooperative Alliance held special sessions in 1937 and again in 1966 and reported, by means of study committees, those principles considered "essential to genuine and effective cooperative practice." The 1937 version included:

1. Open, voluntary membership.
2. Democratic control (one member-one vote).
3. Limited interest on capital.
4. Distribution of surplus to members in proportion to transactions.
5. Political and religious neutrality.
6. Cash trading.
7. Promotion of education.

The 1966 version, which is largely a restatement and clarification of the previous effort includes:

1. Open, voluntary membership to those willing to accept member responsibility -- without social, political or religious discrimination.
2. Equal voting rights -- one member, one vote, without outside influence.
3. Limited rate of interest, if any, on share capital.
4. Distribution of economic results to avoid one member gaining at the expense of others. Distribution by membership decision to help develop business, provide common services, or in proportion of business done with the co-op.
5. Education of members, officers and employees in principles and techniques of cooperation -- economic and democratic.

6. A cooperation among cooperatives at local, national and international levels.

Some of the "principles" enumerated have been challenged on occasion as not really being principles, but merely operating practices which may or may not be practical and possible at given points in history. There are three points, however, on which there is virtually unanimous agreement. These three generally accepted, basic principles of cooperation are:

1. DEMOCRATIC CONTROL -- the association is owned and controlled democratically by the member patrons.
2. OPERATION AT COST -- the association is operated on a non-profit or cost basis for its member-users rather than being operated on a profit basis for its investors (distribution of any net earnings is on a patronage basis).
3. LIMITED RETURNS ON CAPITAL -- only limited returns, comparable to modest interest rates, are paid on ownership capital (capital is subordinated to member usage for purposes of sharing monetary gains).

PRINCIPLES APPLIED

Certain "principles" which have been discussed can be found in application in state and federal legislation pertaining to cooperatives.

The Cooperative Marketing Act of the State of Ohio, otherwise known as the "Green-Farnsworth Law" embodies certain of the co-op principles in its provisions. Among other items, provisions of this law include:

- No stockholder may own more than one-twentieth of the common stock (5%).

- Dividends on stock limited to eight percent (8%).
- Net income (other than dividends) shall be distributed to members only on the basis of patronage.
- No member of a non-stock association may have more than one vote.

The Capper-Volstead Act, the Federal legislation adopted in 1922 which permits producers of agricultural products to organize without such action is itself constituting restraint of trade, contains the following provisions:

- the association must operate for the mutual benefit of members as agricultural producers.
- voting must be on the basis of one-man, one-vote, or dividends on stock must be limited to eight percent.

The Farm Credit Act of 1971, which constitutes the enabling legislation for the Federal Land Banks, Federal Intermediate Credit Banks, and Bank for Cooperatives, contains the following provisions applicable to each unit:

- one-member, one-vote
- limit on dividends of eight percent
- distribution of net earnings on a patronage basis (BC and FICB)

THE CHALLENGE

One distinctive feature of cooperatives is the close relationship between the business entity and its patrons. This closer relationship between the cooperative and the patrons is governed by the provisions of the statute, articles of incorporation, bylaws and membership contract.

Cooperatives are people; people working together. Employees must not only sell goods and services by informing customer-owners of the

cooperative principles but must use tact and judgment as they communicate between the co-op, its owners and the public. To many people, however, the cooperative is its employees.

The success of a cooperative often ultimately depends on how well the organization's members (directors) and employees (management) understand and utilize the principles upon which cooperative endeavors or mutuality is based. Cooperative management must know not only (1) management principles, but (2) cooperative principles too if they and their cooperative are to be successful. The challenge to you, as future leaders of cooperatives, is to prepare yourself in both areas.

In America, agricultural cooperatives have proven to be an effective tool of modern agriculture for the mutual benefit of the cooperative's owners.